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INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY
RUEHBJ/AMEMBASSY BEIJING PRIORITY 1774
RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

UNCLAS SECTION 01 OF 02 BRUSSELS 000204

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STATE FOR EEB/OMA, EUR/ERA, EUR/UBI
TREASURY FOR OASIA/OIC: ATUKORALIA
USDOC FOR 4212/ITA/MCA/EUR/OECA/WNE/JLEVINE

E.O. 12958: N/A
TAGS: EFIN ECON BE
SUBJECT: BELGIUM: SHAREHOLDERS SAY 'NO' TO FORTIS BANK
SALE; GOVERNMENT HOLDING THE BAG, FOR NOW

REF: A. A) 08 BRUSSELS 1675
¶B. B) 08 BRUSSELS 1599

SUMMARY

¶1. (SBU) Shareholders of Fortis Holding on February 12 narrowly rejected the Government of Belgium's (GOB) October 2008 purchase of Fortis Bank, once Belgium's largest and still its largest private employer (20,000), putting at risk a proposed sale of 75 percent of Fortis Bank to the French bank BNP Paribas. A majority of shareholders also voted 'No' to the October 2008 sale of Fortis Bank's Dutch assets to the Dutch government, although that deal, unlike the BNP one, has already been consummated. Prime Minister Herman Van Rompuy tried to reassure shareholders, depositors and employees during a February 12 press conference, where he stressed that the GOB is still the owner of Fortis Bank. The PM also supported Finance Minister Didier Reynders, who came under fierce criticism from nearly all parts of the Belgian press following the No vote. Now the Government, which before the vote had stressed that there was no 'Plan B' if the shareholders did not give a thumbs-up, must try to figure out what to do next. BNP Paribas, for its part, said its offer from October stands until February 28, while it is unclear what the No vote means for the already-completed sale of Fortis' Dutch assets to the Government of the Netherlands. End summary.

CONTENTIOUS SHAREHOLDERS BUSHWHACK GOB'S PLANS
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¶2. (U) Approximately 7,000 shareholders at a February 11 general assembly of Fortis Holding, the one-time owner of Belgium's one-time largest bank, Fortis Bank, rejected by the narrowest of margins (0.04 percent) the Government of Belgium's (GOB) effective takeover of Fortis Bank in October 2008, when the GOB acquired nearly 100 percent of Fortis Bank and at the same time brokered the planned sale of 75 percent of Fortis Bank's non-Dutch assets to French banking giant BNP Paribas. A December ruling by the Belgian Court of Appeals granted shareholders of Fortis Holding the right to vote on the GOB's decisions to sell Fortis Bank's assets to BNP Paribas and the Dutch Government; the GOB and Fortis management had hoped that shareholders would ultimately approve their actions so that the BNP Paribas transaction could go through. Defiant shareholders also nixed the October sale of Fortis's Dutch assets to the Government of the Netherlands; that deal has already been completed, however, so it is unclear what the No vote will mean for that transaction, for although some commentators following the

vote said the GOB must now renegotiate with the Dutch governemnt, the Belgian press also has reported that the Dutch Government has already said it will not renegotiate that deal.

¶3. (SBU) The 'No' vote rejecting the Fortis Bank sale to the GOB obviated a scheduled third vote by shareholders on whether to approve the sale to Paribas; that deal is now imperiled. According to a statement on Paribas' website, only the bank's October 2008 offer remains on the table until February 28, thus implicitly putting to nought a renegotiated offer reached with the new Van Rompuy government in January 2009 that many Belgian analysts said had improved the deal for Belgium. Prime Minister Van Rompuy stated at a February 12 news conference that the GOB will resume discussions with the French bank. Leading up to the February 11 vote, Belgian ministers had reminded shareholders that the GOB had no Plan B, in hopes of getting them to vote yes. But a key shareholder, Chinese company Ping An, with 5 percent of the shares, had announced over the weekend that it would vote No, and many observers believe that its No vote was critical in yesterday's outcome. Key Belgian cabinet members met with Prime Minister Van Rompuy in the evening of February 11 after the 'No' vote was announced to consider next steps, but to date the Government has not said what its next steps would be, limiting its statements to assurances to depositors and employees that Fortis Bank remains in GOB hands, is stable and open for business as usual, and that it will now consider its options.

¶4. (U) The No vote dominated the Belgian press on February 12, with observers (especially from the Flemish press) particularly singling out Finance Minister Didier Reynders in

their criticism of the Government's handling of the Fortis 'affair' from the beginning. Reynders, for his part, has limited his public remarks to mostly saying that the No vote "complicates the task" of sorting out what will become of Fortis Bank, that the GOB is in discussions with BNP Paribas, and that no one should expect a quick decision in the next few days. Reynders also told the press that the Government was not at fault, blaming management at Fortis Holding for poor decisions that forced the GOB to step in and take control of Fortis Bank last October, and he also implicitly criticized foreign shareholders by saying that a strong majority of "Belgian" shareholders voted in favor of the Fortis deal.

¶5. (SBU) While many newspaper stories on February 12 appeared to treat the No vote as a victory of sorts for the shareholders, others pointed out that the No vote in fact only complicates matters for the Government, which has few options: letting Fortis attempt to work out its own deal, pumping more cash into the bank, or trying to renegotiate the terms of the October deal with the Government of the Netherlands and BNP Paribas. The first option does not appear probable, since it was the threat of a failure of the heavily-indebted Fortis that led the GOB to act so precipitously in the first place last October to try to save Fortis. The second option is complicated by the GOB's already-heavy debt load but may end up being the only choice if the GOB fails to attract other interested buyers. And the third option is hard to envision, since BNP Paribas has already said it will go forward with the deal only on its original terms, and the Government of the Netherlands has already completed its takeover of Fortis' Dutch holdings. Even if the GOB could get those two parties to sit down, it is not in a strong position to demand a better deal.

COMMENT

¶6. (SBU) While the GOB is telling all who will listen that the No vote was not a defeat for the Government, it is hard to conclude otherwise. Now the GOB, already run by a fragile

coalition, will have to continue to devote much of its attention as well as political (and likely financial) resources to resolving what to do with Fortis. And with the country's central bank forecasting a fall of Gross Domestic Product (GDP) of 1.9 percent in 2009 and an increase of the country's debt/GDP ratio to well over 90 percent due to its attempts to stem the larger economic crisis, the financial resources available for the GOB to act are limited, at best. One financial sector observor told the Embassy that the shareholders' No vote unfortunately mainly created much uncertainty for the Government, which now must try to calm potential investors, depositors and the company's 20,000 employees, and was not a good thing for shareholders. Not surprisingly, shares of Fortis fell by double digits in trading on February 12.

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